

VZCZCXRO7268
RR RUEHCD RUEHGD RUEHHO RUEHMC RUEHNG RUEHNL RUEHRD RUEHRS RUEHTM
DE RUEHME #0820/01 0452114
ZNR UUUUU ZZH
R 142114Z FEB 06
FM AMEMBASSY MEXICO
TO RUEHOT/AMEMBASSY OTTAWA 2168
RUEHC/SECSTATE WASHDC 8947
INFO RUEATRS/DEPT OF TREASURY WASHDC
RUCPDO/DEPT OF COMMERCE WASHDC
RUEHXC/ALL US CONSULATES IN MEXICO COLLECTIVE

UNCLAS SECTION 01 OF 02 MEXICO 000820

SIPDIS

SENSITIVE
SIPDIS

STATE FOR WHA/MEX, WHA/EPSC, EB/IFD, AND EB/EPPD
STATE PASS USAID FOR LAC:MARK CARRATO
TREASURY FOR IA MEXICO DESK: JASPER HOEK
COMMERCE FOR ITA/MAC/NAFTA: ANDREW RUDMAN

E.O. 12958: N/A
TAGS: [ECON](#) [EFIN](#) [EINV](#) [PGOV](#) [MX](#)
SUBJECT: BANK OF MEXICO OFFICIAL WORRIES ABOUT AMLO

SUMMARY

1. (SBU) Bank of Mexico (BOM) deputy governor Jose Sidaoui told Econoffs February 9 he is worried that leading presidential contender Andres Manuel Lopez Obrador (AMLO), should he win, would rule like Venezuela's Hugo Chavez. Sidaoui also commented more generally about Mexicans' ingrained dependence on government as the source of jobs and economic benefits. Clarifying BOM Governor Guillermo Ortiz's recent comments about using Mexico's foreign reserves to pay down foreign debt, Sidaoui explained that the GOM would have to run budget surpluses with which to buy the foreign currency from the BOM. Commenting on new Fed Chairman Bernanke, Sidaoui said his challenge would be to help drain excess liquidity from the global financial system without sending the U.S. into a recession. End summary.

AMLO AS CHAVEZ

2. (SBU) BOM deputy governor Jose Sidaoui, one of five BOM board members (including BOM governor Guillermo Ortiz), met with Econoffs February 9 to share his perspectives on Mexico's economic future. He was particularly worried that "the worst case" political scenario appeared to be close to reality with the sustained lead of leftist presidential candidate Andres Manuel Lopez Obrador in the polls. Sidaoui was not specific in his concern, but clearly believed that AMLO poses not only a threat to economic growth, but also to macroeconomic stability, repeatedly invoking the comparison to Venezuela's Hugo Chavez. Responding to an emerging consensus that AMLO could not affect Mexico's macroeconomic stability the way that Chavez has done in Venezuela, Sidaoui merely responded: "Why not?" He also repeatedly referenced a major public corruption scandal in Mexico City during AMLO's tenure as mayor, noting that AMLO's closest advisor, who was caught on videotape stuffing illicit cash in his pockets, remains free. Sidaoui's general concern is that AMLO and his followers "don't believe in markets; they believe in government control of the economy."

GOVERNMENT AS THE DISTRIBUTOR OF ECONOMIC BENEFITS

3. (SBU) Sidaoui also expressed dismay that Mexicans, in

general, seem more comfortable with the idea of government as the source and distributor of economic benefits, rather than the market. He blamed 70 years of Institutional Revolutionary Party (PRI) rule -- government marked by its skillful use of largesse, favors, and jobs to remain in power -- for the attitude. He suggested AMLO is merely exploiting this dependence on government by offering to use government powers to redirect public resources away from industrial and business interests to the poor. He did not see this as progress but a mere continuation of the old systems that have failed to deliver needed economic growth.

USING FOREIGN RESERVES TO PAY FOREIGN DEBT

¶4. (SBU) BOM governor Guillermo Ortiz recently commented publicly that Mexico's large and growing foreign reserves (about USD 70 billion) could be used to pay down Mexico's relatively small foreign debt (also about USD 70 billion). Ortiz's suggestion was supported by Finance Secretary Gil Diaz. Sidaoui explained, that, of course, the government would have to buy dollars from the central bank (by, for example, running budget surpluses) to then use to pay down the foreign debt. He accepted that such a detail would be lost on nearly anyone hearing of the plan, particularly someone like AMLO who sees Mexico's foreign reserves as an unutilized piggy bank to fund infrastructure and social programs.

BERNANKE'S CHALLENGE -- DRAIN EXCESS LIQUIDITY

¶5. (SBU) Sidaoui had little to say about new Fed Chairman
MEXICO 00000820 002 OF 002

Bernanke. He expects that the excellent relations between the two central banks will continue. He said that Bernanke's main challenge will be to help drain the global financial system of excess liquidity while avoiding pushing the U.S. into recession. Sidaoui said this excess liquidity has resulted in historically low interest rates and "unjustifiable" investments by money managers who are seeking yield without adequate regard for risk.

COMMENT

¶6. (SBU) Sidaoui is clearly a free-market thinker who has little use for those seeking government solutions to economic problems. His concerns over a possible future AMLO presidency are not unique, but are not in line with mainstream expectations that the Mexican economy would survive an AMLO presidency relatively unscathed, even if unimproved. His comments on Mexicans' dependence on government as the source of economic benefits are on the mark and represent one of the main stumbling blocks to growth. The attitude Sidaoui describes cannot be changed through "structural" reforms, and echoes the concern of many here who expect Mexico's competitiveness to lag until this attitude evolves into a more market-oriented one. End comment.

Visit Mexico City's Classified Web Site at
<http://www.state.sgov.gov/p/wha/mexicocity>

KELLY